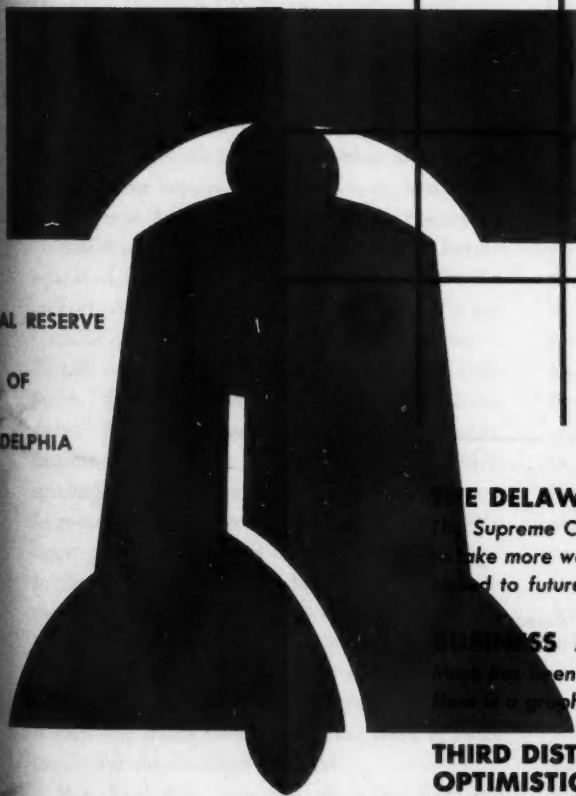


JUN 25 1954

business review



THE DELAWARE RIVER WATER CONTROVERSY

The Supreme Court of the United States granted New York the right to take more water out of the Delaware River but the door is not closed to future water needs in metropolitan Philadelphia.

BUSINESS ACTIVITY SINCE SPRING 1953

Much has been written about the downturn in business activity. Here is a graphic presentation showing the major areas of spending.

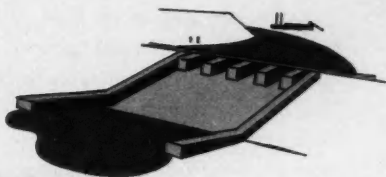
THIRD DISTRICT HOMEBUILDERS ARE OPTIMISTIC—BUT CAUTIOUS

Homebuilding is resisting recessionary pressures. Much of its strength is derived from improvement in the mortgage situation.

CURRENT TRENDS

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THE DELAWARE RIVER WATER CONTROVERSY



On April 20, 1954 the Mayor of New York City placed a ban on the use of water for washing streets, sprinkling lawns, and watering gardens. A shortage of rainfall had reduced the city's reservoirs to 72 per cent of capacity at a time when they should have been substantially full.

The water supply, said the Mayor, had fallen to its worst April storage level in the history of upstate reservoirs. In 1949, New York City barely squeezed through a major water crisis. At the end of the summer in that year the city's big Catskill and Croton water systems were down to 34 per cent of capacity. Drastic measures were taken. The authorities proclaimed "Dry Thursdays;" fines were imposed upon owners of leaky faucets, automobiles went unwashed, public-spirited New Yorkers skipped baths and shaves. In restaurants, waiters served drinking water only upon request. Statistics of the daily water level in the reservoirs made the headlines, which commanded more attention than the stock-exchange quotations. With 14 billion gallons of water flowing down the Hudson River every day past Manhattan—an island completely surrounded by water—the water shortage did not seem to make sense. Yet the shortage was real.

New York City does not use water from the Hudson, which would require extensive and costly filtering; instead, the city reaches upstate to tap

the purer waters of numerous tributaries of the Hudson to supply water for the ever-expanding population of the country's largest city. Today, an elaborate system of upstate reservoirs and aqueducts provides over a billion gallons a day, but the city needs still more.

To augment the New York City water supply, New York proposes to tap the Delaware. New York has rights in waters of the Delaware. The river originates in New York State but constitutes a single stream throughout its course. The sovereign states of New Jersey, Pennsylvania, and Delaware also have rights in its waters—and thereby hangs a tale.

Water taken from the upper Delaware for use in New York City is never returned to the Delaware, but finds its way to the sea through the upper New York bay. That is why municipalities on the lower Delaware, like Trenton, Philadelphia, and Wilmington, are so vitally concerned. Water drawn out of the river at Philadelphia for municipal purposes is returned to the river; but water drawn off the upper Delaware for New York City is never returned to the river. It is total diversion. The problem in its simplest terms is, how much water may New York divert without injury to its neighboring states downstream. The solution is anything but simple.

The decision of the Supreme Court of the

United States announced June 7, 1954 (as this article was going to the printer) permits the diversion of specified amounts by New York and New Jersey. According to the press reports, New York may divert up to 490 million gallons a day prior to completion of the dam and reservoir on the west branch of the Delaware at Cannonsville, New York, which it is estimated will be completed in about fifteen years. After completion of this project, the daily diversion of water may be increased to 800 million gallons. The Court's decision recognizes the continuing nature of the problem, however, as it leaves the door open for petitions to the Supreme Court in the future for changes in the amended decree.

THE DELAWARE WATERSHED

The Delaware is a small river. From its source to the mouth of Delaware Bay, south of Cape May, the flowing waters travel a distance of only 326 miles. The importance of the river, however, is out of proportion to its size because it flows right through the heart of one of the country's greatest industrial areas. That is precisely why the waters of the river are in such great demand.

The east and west branches of the river rise on the western slopes of the Catskill Mountains in New York. The two branches come together to form the main body of the river at Hancock, New York. From Hancock to Port Jervis, the Delaware defines the boundary between New York and Pennsylvania; then between New Jersey and Pennsylvania; and finally, below Marcus Hook, it is the boundary between New Jersey and Delaware. Thus the river serves four states, each of which has proprietary rights in its waters.

Tributaries from all four states feed into the main river between its source and the Delaware Bay. Among the principal tributaries, in addition to the east and west branches, are the Mongaup

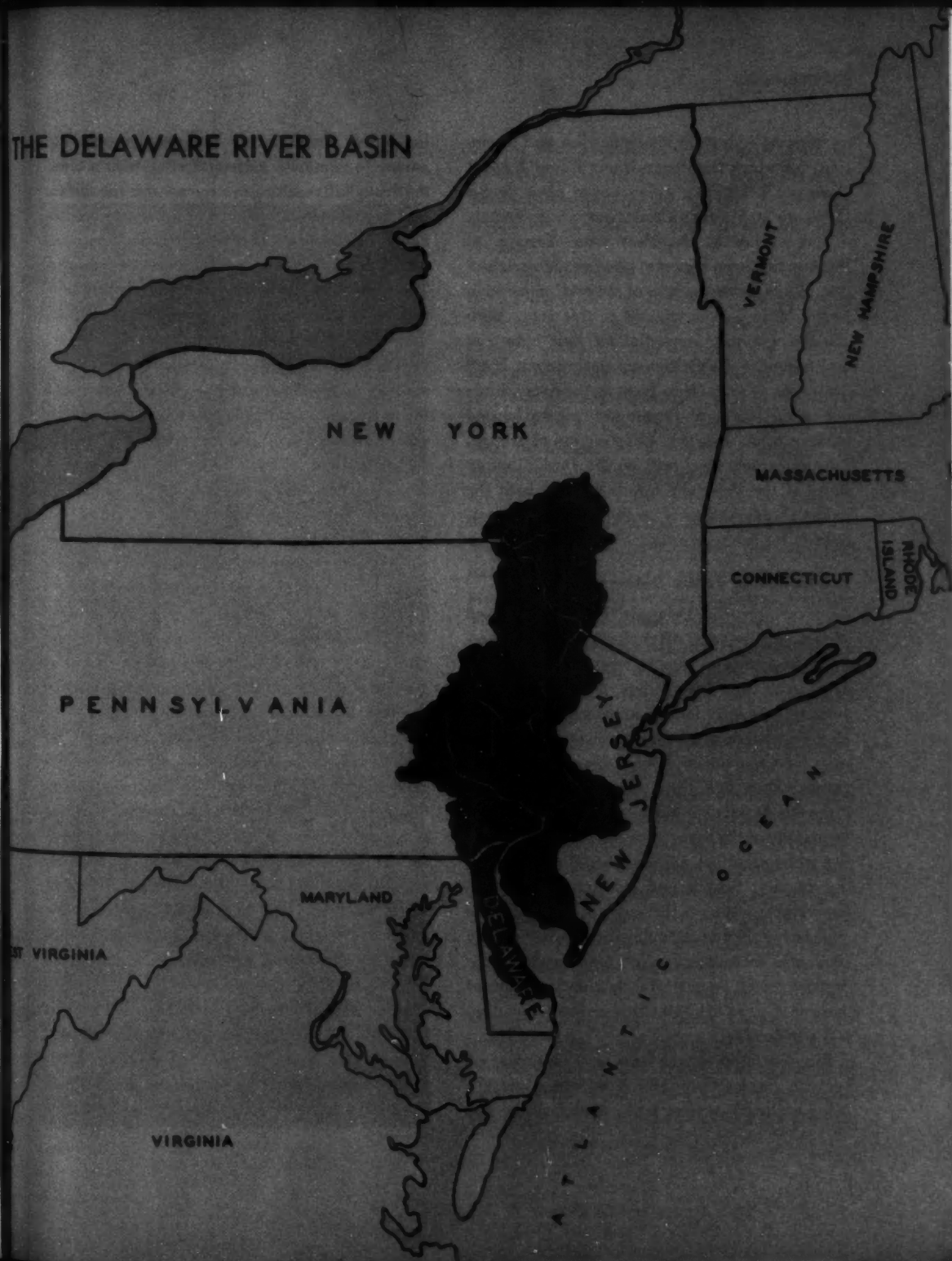
and Neversink rivers in New York; the Lehigh and Schuylkill in Pennsylvania; the Musconetcong and Rancocas in New Jersey; and the Christina River in Delaware. The Delaware and its tributaries form a unified watershed of almost 13,000 square miles. Half of the drainage basin is in Pennsylvania, about one-fourth in New Jersey, almost one-fifth in New York, and about one-twelfth in the State of Delaware.

STATE	Drainage basin area	
	Square miles	Per cent
Pennsylvania	6,422	50.3
New Jersey	2,969	23.3
New York	2,362	18.5
Delaware	1,004	7.9
Total	12,757	100.0

A large portion of the 6,800 square miles above Trenton is mountainous country. This is a region of forested hills and picturesque streams—a land of scenic beauty. The Catskill area in New York and the Pocono region in Pennsylvania afford excellent recreation facilities, such as fishing, hunting, and camping, with provisions for both summer and winter sports. The recreational facilities of this region are easily accessible to the millions of urban people living in the New York City and the northern New Jersey metropolitan area. State and private interests are fully aware of the desirability of preserving and developing this sparsely populated section of the upper Delaware and have taken steps to improve forestation, transportation, and preservation of wild life. More and more people of the Middle Atlantic seaboard are making use of this nearby vacation land where places like Delaware Water Gap, Stroudsburg, and Shawnee-on-Delaware offer many attractions.

The uppermost industrial penetration of the basin is in the Lehigh Valley. Here is the Allentown-Bethlehem-Easton industrial region, built upon anthracite, steel, and cement. This area is

THE DELAWARE RIVER BASIN



undergoing industrial diversification and expansion, for which the Pennsylvania Power & Light Company is building a new power plant on the Delaware at Martin's Creek, just above Easton.

The section of the river from Trenton to Wilmington is the region of heaviest industrialization. Fully three-quarters of the total population of the basin is concentrated in this area. With Philadelphia and Camden at the hub, industrial and commercial activities are pushing out in all directions. Navigable to Trenton, the river affords one of the largest and most strategically located harbors in the country. Construction of a large, fully integrated steel mill on the Bucks County shore of the Delaware is indicative of both the industrial advantages of the region and the potentialities for future growth.

The behavior of the Delaware

As rivers go, the Delaware is a well-behaved stream. Unlike some other rivers, it seldom overflows its banks, is almost never icebound, and never runs dry. Nevertheless, the river is being worked hard—in fact it is being overworked. Heavy demands are being made upon the Delaware for water supply, sewage disposal, and navigation. How well these functions can be performed is directly related to both the quantity and the quality of the water. Shoals in the river interfere with navigation, and plans are afoot to deepen the channel. Sewage and industrial wastes contaminate the waters so that costly filtering systems must be installed by the municipalities that use the river and its tributaries for municipal and industrial water supply. In the lower Delaware there is a constant race between contamination and purification.

Rigorous clean-stream laws have been enacted by both Pennsylvania and New Jersey and are being enforced against both municipalities and

industries. Pennsylvania has already spent big money to eliminate culm and mine wastes from the Schuylkill resulting in a remarkable rehabilitation of that stream, and the campaign to compel municipalities to construct sewage-treatment plants is rapidly approaching effective results. The quality of Delaware River water already is improving as a result of these efforts.

Rainfall in the basin is plentiful; it averages 45 inches a year, which is well above the average for the country. How many people and how much industry the river can support depends not on yearly averages but upon the lowest flow at any particular time. Human life is dependent upon a daily water supply.

A river—even a well-behaved river like the Delaware—is never normal. In the springtime when April showers come and winter's snows begin to go, water flows from every slope and hillside throughout the basin, and swollen streams simultaneously feed into the main channel of the river. In the fall of the year, when rainfall is at a minimum, the run-off is small and that is usually the critical period of the year.

Variation in the flow is easily measured by recording how many cubic feet of water tumble over the falls at Trenton. For example, during the three years 1951-1953, the amount of water passing over the Trenton Falls ranged from a torrent of 120,000 cubic feet a second to a trickle of less than 2,000 cubic feet a second. In 1953, which was a bad year, the October flow fell below 3,000 cubic feet per second on 29 days, and it was less than 2,000 cubic feet per second during 16 days of that month.

In periods of low flow, contamination difficulties multiply. In the upper reaches of the river, in New York State, the water is sparkling fresh and mountain pure. It continues a relatively clean stream to the confluence of the Lehigh at

THE DELAWARE AND ITS PRINCIPAL TRIBUTARIES



Easton. There, industrial wastes from Easton and Philipsburg cause some pollution, but as the water flows on downstream the sanitary quality improves through natural dilution and oxidation processes.

At the foot of the falls at Trenton the river is only about 30 feet above sea level, and from there to the sea the waters are slow-moving and sluggish. Domestic and industrial wastes cause substantial pollution throughout most of this section, and gross pollution occurs in the Philadelphia-Camden region. Philadelphia, Camden, and other municipalities are actively engaged in building sewage-treatment facilities, but until they are completed the river in this section continues to be heavily contaminated. Filtering facilities are required in Philadelphia to treat the municipal water supply, which is obtained in about equal proportions from the Delaware and the Schuylkill. The states of New Jersey and Delaware also are concerned about the possibility of contamination of the oyster beds, which occupy 38,000 acres in Delaware Bay. Oysters are very sensitive to the quality of water, and the oyster industry is a valuable resource of New Jersey and Delaware.

Almost 6 million people live in the Delaware River Basin and, next to the air they breathe, water is their most invaluable natural resource. Household operation requires water for bathing, cooking, drinking, laundering, sanitation, gardening, dishwashing, brushing teeth, car washing, and many other uses. In Philadelphia the daily use of water for domestic and industrial purposes is about 250 gallons per capita.

The industrial uses of water are greater than most people imagine. It takes 1,000 gallons of water to refine a ton of sugar; 50 gallons to process a case of canned peas; 65,000 gallons to make a ton of steel; 70,000 gallons to produce a ton of paper; 30 gallons to generate a kilowatt

hour of electricity; and 770 gallons to refine a barrel of petroleum. Every product for human consumption requires water in its production, and the industrial uses of water are enormous. To be sure, much of the water utilized by industries is not used up in the sense that it is "lost." Most of the water drawn out of the river by a steel mill or power plant (where it is used for boiler feed, heating, or cooling) is returned to the river; but in a large industrial center such as the Delaware basin, water must be available in large quantities and preferably free of impurities.

Sharing the Delaware

New York City's water troubles and plans to alleviate the shortage by drawing from the Delaware and its tributaries are by no means recent developments. The difficulties began long before last April, and in fact long before the critical stage in 1949.

As early as 1929, when the population of New York City was approaching 7 million, the city, acting under state authority, proposed to divert 600 million gallons of water a day from the Delaware River watershed. The plan included construction of several dams to impound waters during the heavy spring run-off, for the purpose of adding to the city's supply and to release water into the main channel of the Delaware in periods of low flow. New York took the position that the waters to be impounded were only flood and waste waters, part of which would be released to augment stream flow in the Delaware River during periods of low flow in dry weather. New Jersey and Pennsylvania objected on the ground that the proposed New York diversion would substantially harm navigation, water power, sanitation, industrial use, water supply, agriculture and recreation, and oyster, fish, and wild life throughout the Delaware River Basin.

THE CASE GOES TO COURT

New Jersey filed a Bill of Complaint in the Supreme Court of the United States for the purpose of preventing New York from tapping water out of the upper Delaware. Pennsylvania was allowed to intervene to protect its own interests and maintained that the waters of the Delaware River and its tributaries should be fairly and equitably proportioned among the three states.

The Supreme Court ruled, in 1931, that New York City should be allowed a maximum diversion of 440 million gallons a day from the Delaware and, among other things, specified that the New York dams and reservoirs be operated so as to provide certain prescribed releases to the river. The dams, reservoirs, and aqueducts that New York proposed to build for the dual purpose of obtaining 440 million gallons a day and releasing water in conformity with the specifications of the Court have not yet been completed. Construction was delayed by the depression of the thirties, and shortages of manpower and materials during World War II. Thus although almost a quarter of a century has passed by since the Supreme Court ruling, New York has not begun to take water out of the Delaware. In the meantime, the population of New York City has grown to almost 8 million and per capita water consumption has increased, so that New York sought permission to divert water from the upper Delaware in excess of the maximum allowance prescribed in the 1931 Supreme Court decree. Nor has history stood still along the Delaware below the New York-Pennsylvania state line.

INDUSTRIAL EXPANSION ON THE DELAWARE

The arrival of Big Steel ushered in a new period of industrial and commercial expansion throughout the Delaware Valley. It is directly responsible

for the growth of an entirely new city, Levittown, for increased shipping on the Delaware, and it has brought into the area many other concerns directly or indirectly related to steel making. It is easy, however, to let the big event obscure many other developments.

Growth and expansion are in evidence throughout the valley. New companies are moving into the area and large capital outlays are constantly being made to enlarge and modernize productive facilities. Electric power and other utilities are installing more equipment; hospitals, schools, and other municipal facilities are being built; and the turnpikes bisecting Pennsylvania and New Jersey are being inter-connected. Additional bridges are spanning the Delaware and many new shopping centers are being erected.

Population in the Philadelphia metropolitan area increased 15 per cent during the decade ending 1950, and vigorous growth is continuing. Industrial and commercial enterprises, pushing into Delaware and the southern counties of New Jersey, go hand-in-hand with rising population trends of that region.

With the influx of more business activity and more people in the Delaware Valley, increasing demands for water from the Delaware River are inevitable. Adequacy of water supply is the prime physical basis for further expansion and cannot be overlooked in planning for future growth.

A PLAN FOR INTERSTATE COOPERATION

In 1949, the year of the big water crisis in New York City, New York, Pennsylvania, and New Jersey attempted to work out a cooperative plan for sharing the waters of the Delaware. Pursuant to reciprocal legislation passed by the three states, the Interstate Commission on the Delaware River Basin was directed to conduct an investigation to

work out an integrated water project in the upper Delaware basin for their mutual use and benefit. Each of the states appropriated \$70,000 for the survey, whereupon the Commission (called Incodel for short) hired a firm of engineers to make a comprehensive survey of the problem.

The engineers turned in a voluminous report, about the size of a metropolitan telephone directory. It was a very detailed and thorough-going analysis, which took into consideration such things as present and prospective population trends in various subdivisions of the Delaware basin, rainfall, stream flow, existing water-supply systems, turbidity, salinity, alkalinity, and about every other aspect of water, both quantitative and qualitative, in every part of the basin. On the basis of this report, Incodel submitted a unified plan of an integrated water project to meet the combined prospective water-supply needs of political subdivisions and metropolitan areas throughout the entire basin.

The Incodel plan

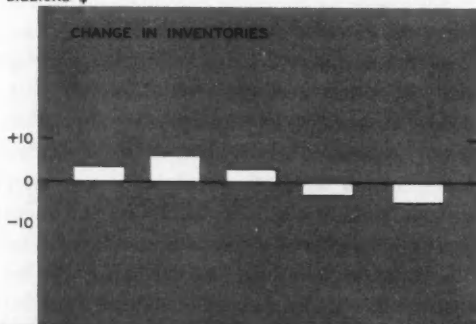
The Incodel plan was designed to meet the two highest uses of water: (1) to provide adequate and satisfactory sources of water supply, and (2) to increase substantially the volume of flow in the Delaware River during periods of drought, which occur almost every summer and fall, to the detriment of everyone depending upon the river for recreation, municipal and industrial water supply, and disposal of treated wastes. These objectives were to be achieved by the construction in New York State of a series of dams, reservoirs, and aqueducts that would impound enough water during the heavy spring run-off for regulated release during the summer and fall dry run. By construction of these facilities, both New York City and northern New Jersey would be

(Continued on page 12)

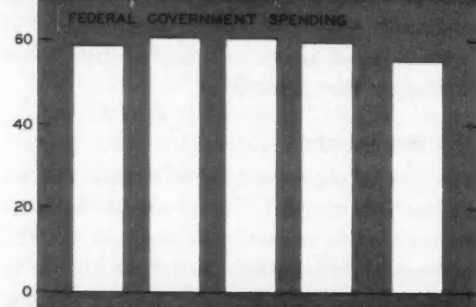
BUSINESS ACTIVITY SINCE SP

Much has been written about the downturn in business activity. Here is

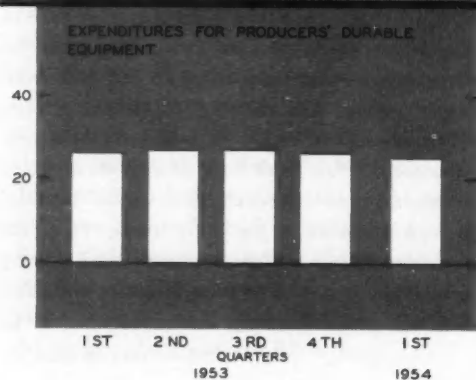
BILLIONS \$



Businessmen's inventory spending has undergone a complete change of direction since last summer. Business was accumulating stocks then; in the first part of this year, liquidation was the order of the day.

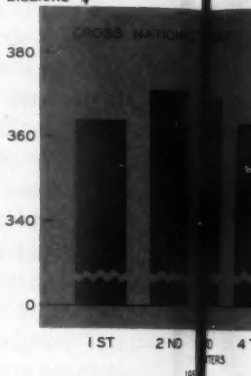


Federal Government spending has declined by about 9 per cent over this period, as the result of a drop of \$6.6 billion in spending on national security and a small increase in other Federal spending.



Business investment in durable equipment is down somewhat from the high level in the second quarter of 1953.

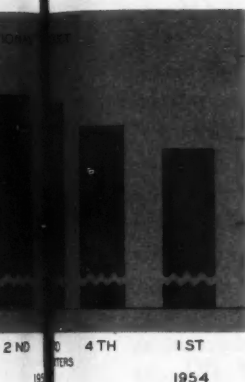
BILLIONS \$



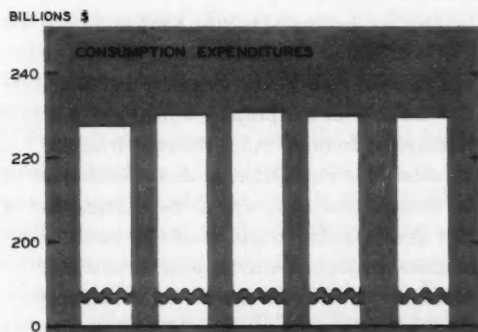
No matter how measured, level of business activity has slightly since spring last year. The nation's gross national product of the value of all goods and services produced and consumed is down \$14 billion, or about 1 per cent, from the level measured in the second quarter of 1953. No matter how measured, level of business activity has slightly since spring last year. The nation's gross national product of the value of all goods and services produced and consumed is down \$14 billion, or about 1 per cent, from the level measured in the second quarter of 1953. No matter how measured, level of business activity has slightly since spring last year. The nation's gross national product of the value of all goods and services produced and consumed is down \$14 billion, or about 1 per cent, from the level measured in the second quarter of 1953.

SPRING 1953

Here is a graphic presentation showing the major areas of spending.

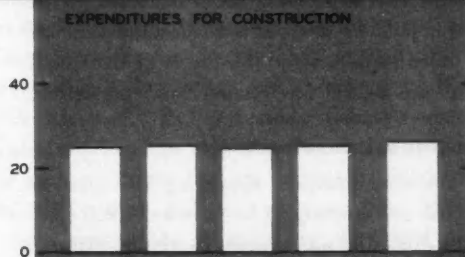


Total consumer spending has been well maintained over the period, though a shift in the pattern from spending on goods to spending on services has had a depressing effect on employment and production.

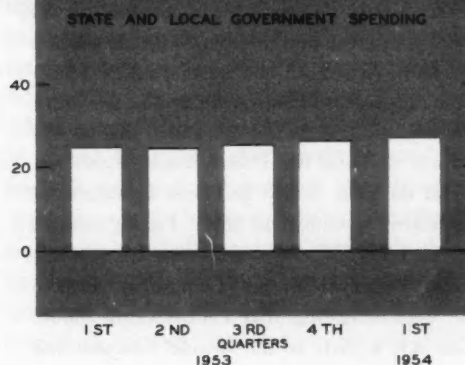


how measured, the general business activity has dropped off since spring of last year. The national product—a measure of all goods and services produced—is down by about 1 per cent. In addition, the general drift of economic activity, it is important to be spending money for what. That is, reduced is bought by consumers to buy food, clothing, furniture, many services, and homes. Businessmen invest in machinery and inventories. The government spends large sums mostly on armament. State and federal highways, schools, and bridges.

State and local government expenditures which have increased consistently in the post-war period have been gaining since the second quarter of 1953.



And spending on new construction, principally residential housing and business building, is higher than it was in mid-1953.



supplied with adequate water requirements for the next thirty years; and the upstream storage capacity would be at all times sufficient to insure an adequate minimum flow from the non-tidal section of the river above Trenton into the tidal basin below Trenton.

The plan was estimated to cost \$564 million at 1950 prices. About three-quarters of the cost of construction was to be charged against the "water supply" features of the project, which would be self-liquidating from revenues received from the sale of water. The remainder, or about one-fourth of the construction cost, was to be charged to "stream flow" regulation and should be paid for by the states in proportion to the benefits received. Paradoxically, these ratios are almost the reverse in terms of water-storage capacity required to meet the two uses. Only about one-third of the water impounded is required to meet the demands for water supply, while two-thirds of the stored waters are needed for "stream flow" regulation.

Post-Incodel developments

An interstate compact approving the plan in principle and creating a four-state water authority for its execution was enacted by the legislatures and signed by the Governors of New Jersey and Delaware in 1951. New York followed suit early in 1952. But in Pennsylvania, opposition to the Incodel plan arose on the grounds that it was too generous to New York and northern New Jersey and too niggardly to Pennsylvania. The Governor of Pennsylvania, in June 1951, stated that he was unwilling to have the Pennsylvania legislature consider the plan until it had been appraised by a committee appointed by him. Twenty months later, in June 1953, his committee—the Pennsylvania Water Resources Committee—filed a report recommending that Pennsylvania should not become a party to the Incodel compact and

outlined certain projects in the Lehigh Valley and Pocono areas as potential future sources of water supply. That drew sharp protest from the resort and recreational interests. Building dams is never popular in the region immediately concerned because it means buying large areas of land, displacing people, and destroying homesteads.

Meanwhile, New York City, apparently believing the Incodel project was stalled, filed a petition with the Supreme Court of the United States to be allowed to proceed independently with a project to increase its authorized diversion of water from the Delaware from 440 million to 800 million gallons a day. Both New Jersey and Pennsylvania promptly filed statements with the Court in opposition to the New York proposal.

Soon thereafter New Jersey began negotiations with New York that resulted in an agreement whereby New York was to divert 800 million gallons a day from the Delaware, and New Jersey was to take 250 million gallons a day. When Pennsylvania heard about that, it naturally protested and countered by attempting to work out a compromise with New Jersey. After many weeks of negotiations, Pennsylvania and New Jersey failed to arrive at a mutually satisfactory arrangement. New Jersey insisted upon a minimum flow at Trenton in excess of the natural minimum monthly average. Pennsylvania maintained that the primary use of the Delaware was for water supply, and since southeastern Pennsylvania was solely dependent upon the Delaware and its tributaries for water supply it could not agree at the expense of such supply to the maintenance of an artificial minimum height of the river at Trenton.

There is no actual experience upon which to appraise the effects of the Supreme Court's recent decision permitting upstream diversion upon downstream communities. Whether the contem-

plated dry-weather releases from the storage dams turn out to be satisfactory or not to people on the lower Delaware remains to be seen. The complete answer to this question will not be known until New York has completed its additional water-impounding facilities at Cannonsville.

It should be noted that to provide water for this additional diversion of 360 million gallons a day, New York City proposes to build only one reservoir in the upper basin in New York State, as compared with the three reservoirs in the Incodel plan. While the capacity of this one reservoir would be sufficient to meet New York City's requirements and provide some stream-flow regulation it would not, like the Incodel three-reservoir plan, produce water for the exclusive benefit of the lower Delaware basin states.

THE RISK OF THE FUTURE

In the case recently before the Supreme Court, Pennsylvania did not object to New York's diversion from the Delaware of 800 million gallons a day (440 million gallons a day under the 1931 ruling plus 360 million gallons a day under the latest decision), provided such taking is subject to certain reservations. The reservations, apparently recognized in the Court's decree, according to press reports, are that:

1. Diversion of additional quantities of water by New York is not to be considered a prior appropriation.
2. There shall be no estoppel against Pennsylvania in the future because of its failure to object now against additional diversion, and
3. The Supreme Court's decree should be subject to review at any time as changing conditions might require. Moreover Pennsylvania requested the appointment of a river mast to administer the decree of the Supreme Court. In the 1931 decree it was expressly provided

that "the diversion herein allowed shall not constitute a prior appropriation and shall not give the State of New York and the city of New York any superiority of right over the State of New Jersey and the Commonwealth of Pennsylvania in the enjoyment and use of the Delaware River and its tributaries." That is to say, by failing to make objections to increased diversion now, Pennsylvania is not relinquishing any rights that it now holds in the waters of the Delaware.

Pennsylvania's position was that by not interposing objections to increased diversion at the present time should not stop it from making such objections in the future if changing conditions subsequently make the available waters inadequate for southeastern Pennsylvania. Pennsylvania maintains that if New York is undertaking the expenditure of a large sum of money to divert water from the Delaware for estimated future requirements in 1967 and beyond, New York should do so with full knowledge of the risk assumed. By that time, Pennsylvania's water requirements may likewise have increased to such an extent that the increased diversion of 360 million gallons a day by New York might have to be curtailed or eliminated altogether. After all, it is pointed out that New York does have an alternate source of water supply in the Hudson; but should future drains on the Delaware become excessive, the Philadelphia metropolitan area has no other source than the Delaware and its upstate tributaries.

No one can foresee what changes the future may bring and what their effects will be upon the demands for water throughout the Delaware basin. Among the imponderables are such things as changes in population, rising standards of living, new uses of water like the recently expanding consumption for air conditioning, changing technology in water purification, the possibility

of making salt water potable, or the development of atomic power production, increased rates of industrial growth, climatic changes influencing rainfall, and changes in ground-water supplies.

New York is taking the risk of the future. It is making a huge capital outlay to get more water from the Delaware beginning in 1967 or thereabouts. But the Delaware is an interstate stream to which other states also have rights, and when the day comes for New York to cash in on the investment made on the common treasure, the other states may also be in need of more water. At that time, as at the present, the principle of equitable division of the waters must apply.

In contrast with New York's position of taking the risk of the future, Pennsylvania is taking what might be called an "open-end" position. The Commonwealth has no definite plans as to how much water it wants to draw out of the Delaware

and its tributaries. Nor does the State wish to make definite and specific reservations for increased utilization of waters in the future. Pennsylvania, however, wants to preserve all its rights to the river so that its future industrial growth will not be jeopardized by lack of water.

Proponents of the Incodel plan maintain that Pennsylvania is unwisely taking a defenseless position. They point out that the Pennsylvania plan is in reality no plan, that the State is drifting toward an ultimate water shortage by not adopting a positive program such as that recommended by Incodel or one similar to it.

Four states and a river, in which each has a vital interest, pose a problem of unusual difficulty especially when the river is so small and serves so many functions as the Delaware does. The problem is bound to become more difficult as population growth and water consumption in the area increase.

THIRD DISTRICT HOMEBUILDERS ARE OPTIMISTIC—BUT CAUTIOUS

Building and construction activity in most parts of the nation has continued to show remarkable resistance to recessionary forces at work in various sectors of the economy. Performance in the area of homebuilding has been especially heartening ever since last fall. In the country as a whole, privately financed housing starts at seasonally adjusted rates have been increasing. Although the rate slackened somewhat in March and April, the actual number of private starts in the latter month was the largest reported in three and one-half years.

Third District activity also has been rising

Statistical evidence also shows a rising trend in homebuilding in the Philadelphia Federal Reserve District. According to the F. W. Dodge Corporation, contracts awarded for one- and two-family houses increased sharply and almost continuously from October 1953 through April 1954. On a seasonally adjusted basis, there was some decline in awards during April. But comparative figures covering activity in the first four months of this year were reassuring. They indicated that dollar

volume was nearly one-third greater than in the same period of 1953.

Local builders are optimistic— but more cautious

In talking with Third District builders, we found that a fair degree of optimism, tempered with caution, prevailed nearly everywhere. Most operations started in the past few months have been on a smaller scale than when houses were selling from blueprints, but there have been a lot of new developments. Frequently, the technique employed is the so-called "pilot operation" for testing out the local market. In many sections, land is being acquired in smaller parcels, with builders making improvements to meet only their immediate construction needs. Virtually all builders told us their financing problems disappeared following a marked improvement in the mortgage situation. Unquestionably, the comparative ease with which both construction loans and permanent mortgages are obtainable has contributed a great deal to the strength of homebuilding in this district.

New houses sell fast in some areas

The market for new houses varies widely from one area to another, but over-all there are only a few reports of operations that could be labeled "sticky." Builders around Philadelphia speak of a continuing active demand, particularly in the lowest and highest price ranges. Reports from Reading indicate that the market is probably one of the best in that area. There, virtually no completed houses remain unsold, and local builders are said to have some backlog of residential construction. In Dover, Delaware, an influx of air-force personnel has created a strong demand for both new and old houses. New Castle and Newark, too, are other bright spots in that State as housing needs have been boosted by industrial expansion.

... but in some others the market has turned spotty

Homebuilders in the vicinity of Trenton, New Jersey, describe the market as unseasonably slow, although they have noted a little improvement lately. Sales have been somewhat higher than last fall, but then 1953 was not a particularly good year in that area. In Wilmington, Delaware, not much is being offered in the lower-price ranges because this market was pretty well supplied last year. Houses selling from \$15,000 to \$18,000 are moving well; but demand has slackened in the higher brackets. Builders operating in the suburban areas around Harrisburg and through much of the Lehigh Valley in Pennsylvania emphasize the presence of a buyers' market in all price ranges. There are not many completed units unsold in any of these operations, however, because the builders are proceeding more slowly and are keeping a closer watch on the market.

Building costs may rise a little

Before this year is over, homebuilding costs may go a little higher. Wage-rate increases already have been negotiated for a number of building tradesmen in the Philadelphia area. Some advances in rates are a distinct prospect in other Third District cities as current labor contracts come up for review. Prices of most building materials have shown little change. Some grades of West Coast lumber advanced earlier this year, but quotations have softened a little lately. Over-all, there is little evidence that savings on material prices may be sufficient to offset wage-rate increases granted or pending.

Old houses are becoming harder to sell

Real-estate brokers are not overly enthusiastic concerning the market for properties offered for re-sale. A few dealers have become somewhat

pessimistic lately. About the most that can be said for old houses is the fact that this market is seasonally active in some areas but too slow for this time of the year in others. Prospective buyers have more to choose from this spring than last. The smaller houses and those priced up to about \$15,000 are much easier to sell than the large houses offered above this figure. It is easier now for a prospective buyer to drive a bargain. Consequently, asking prices are under pressure everywhere, with reductions usually in order if a property is to be moved promptly.

Renting demand for both small houses and apartments continues to show surprising strength in all but a few areas. In sections where there has been a lot of industrial expansion the supply situation remains tight. Rental trends, too, are firm. The upward spiral that followed the removal of rent controls, however, appears to have run its course in many places.

The home financing picture is most encouraging

Mortgage lending institutions—banks, insurance companies, and savings and loan associations—all emphasize the complete reversal that has come to the mortgage market in the past few months. Ample funds for construction loans and for all types of permanent financing are available generally in the Third Federal Reserve District. As the supply of mortgage money increased there has been a tendency for lending terms to ease. Many VA loans have been made on the basis of no down payment and thirty years' maturity. This practice, however, is viewed with some concern by most of those in the lending fraternity. FHA mortgages still are preferred more in some areas than in others. But their popularity has in-

creased considerably since the turn of the year. On conventional loans, interest rates are somewhat lower—ranging from $4\frac{1}{2}$ to $4\frac{3}{4}$ per cent, if the down payment is substantial, compared with the 5 to $5\frac{1}{4}$ per cent rate that was more common six months ago.

... and the marketability of mortgages has improved too

In the opinion of some mortgage brokers, the demand for good FHA and conventional paper is the best it has been in several years. VA mortgages also are readily salable whenever there is a "reasonable" down payment of from 10 to 15 per cent. Discounts on FHA's and VA's have almost become a thing of the past. In today's mortgage market, points are seldom charged except on no-down-payment, 30-year VA loans. Both banks and insurance companies are actively seeking prime mortgages, and some told us they are experiencing difficulty in finding enough of such paper to absorb their loanable funds.

Conclusions

It is not likely that homebuilding records will be broken this year—neither does it appear probable that this division of the construction industry is headed for a recession in this area. Third District builders already have completed a lot of houses. Many more are planned. To be sure, much depends on how fast the houses sell. Old properties are harder to move, but this market still does not pose a serious threat to new construction. Far more funds are available for home financing now than at any time in the recent past. Thus, as midyear approaches there is little to suggest that 1954 might not be so good a year for residential building as 1953.

CURRENT TRENDS

Each edition of the newspapers seems to bring more predictions of a near-term revival in business. And each new statistic is seized upon and examined for evidence to bear out the prediction. Optimistic observers find support in the fact that production is up for the first time in months, that unemployment has receded, that retail sales rose in April, and that consumer credit has increased. Yet in many cases special circumstances—seasonal and otherwise—suggest that the figures should be interpreted cautiously. Then, too, the psychological reaction could be adverse if the optimistic expectations do not materialize.

Psychology of prices

One reason sometimes cited for current optimism is the relative stability of prices during the present recession. But this can be viewed in two ways. One might argue that greater flexibility of prices would facilitate recovery. After all, this is often characterized as an "adjustment period," and the price mechanism is the classic adjuster. Perhaps lower prices would stimulate more spending, enable businessmen to work off excess inventories faster, and bring about recovery sooner.

On the other hand, one might argue that the stability of prices has helped to keep the recession from being worse than it might have been; that if prices showed signs of weakening, consumers would hold off buying. Consumers have indicated they do not think prices will change much and, on the whole, that this is "a good time to buy." The statistics show that consumer spending has held up fairly well in the face of declines in some other sectors of the economy, lending stability to the economy.

Whatever may be the psychological aspects of price behavior, it is clear that prices have not behaved as they usually do in a recession. In the 1949 recession—the closest thing in recent years to the current situation—wholesale prices dropped 8 per cent. This was about half the decline during the 1938 recession. In the recession of 1921 and in the Great Depression, wholesale prices fell around 40 per cent. Since the current recession began, wholesale prices have *risen* by about 1½ per cent.

In fact, any one looking only at a chart of wholesale prices would get a peculiar idea of business trends since 1950. He would see the rising trend through 1950 and the first part of 1951, but then a mild downtrend for two years, followed by a leveling in early 1953, and some upward tendency in the past ten months.

The adjustment in many prices apparently came well before the adjustment was felt in other sectors of the economy. The sharpest drop was in prices that rose very fast after the Korean outbreak. It may be that this early decline in some prices has helped keep the business recession from being more severe. At the same time, the relative mildness of the recession when it finally arrived, and continued faith in prospects for long-term economic growth, may have tended to keep prices from going down further.

Price of money

There is at least one kind of price, however, which has behaved about as usual—the price of money, or interest rates. Rates on Treasury bills, which averaged 2.2 per cent in the second quarter of last year have recently been well below 1 per cent.

Rates on commercial paper have declined by nearly 1 per cent and yields on long-term Government bonds and high-grade corporates are down about one-half of 1 per cent. As is usually true, however, rates charged by banks on short-term business loans have moved more slowly; in early March they were about what they were last June. After mid-March however, leading commercial

banks in large cities reduced rates charged on prime loans by one-quarter of 1 per cent.

The basic reasons for the declines in rates are as clear as the declines themselves. On the one hand, the demand for credit has slackened. On the other, the supply of savings has stayed high and the Federal Reserve has pursued a policy of actively promoting ease in the money market.

A NOTE ON UNEMPLOYMENT IN THE THIRD FEDERAL RESERVE DISTRICT

For those interested in statistics for areas within the district, presented on the opposite page, we are showing the latest list of labor-market areas classified by the extent of unemployment.

This has become of greater interest recently because the Department of Labor has moved the Philadelphia and Reading areas into the Group IV classification—they are now areas with "substantial labor surplus." At the same time, Group IV has been divided into two sub-groups: Group IV-A, areas with more than 6 per cent and less than 12 per cent of the labor force unemployed; and Group IV-B, areas with 12 per cent or more unemployed.

Of the eighteen labor-market areas in this district, twelve are now in Group IV; half of these are in IV-A, half in IV-B.

It is expected that another fractional decline in factory employment between now and mid-July will pretty much cancel a seasonal advance in non-manufacturing employment in many labor-market regions. The entrance of school youths and graduates into the labor force as schools shut down for the summer vacation is expected temporarily to aggravate employment problems somewhat.

CLASSIFICATION OF LABOR MARKET AREAS WITHIN THE THIRD FEDERAL RESERVE DISTRICT (MAY)

Group III

Areas of moderate labor surplus
Trenton, N. J.
Wilmington, Del.
Allentown-Bethlehem, Pa.
Harrisburg, Pa.
Lancaster, Pa.
York, Pa.

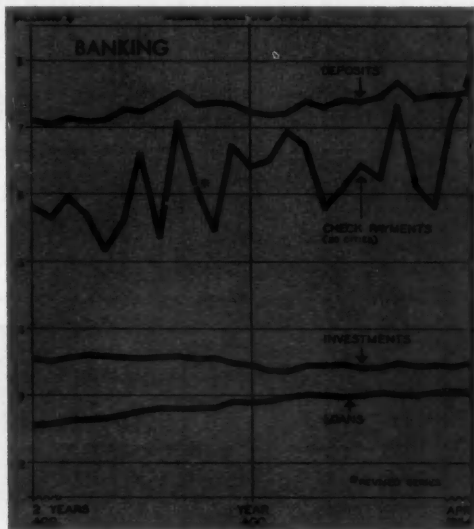
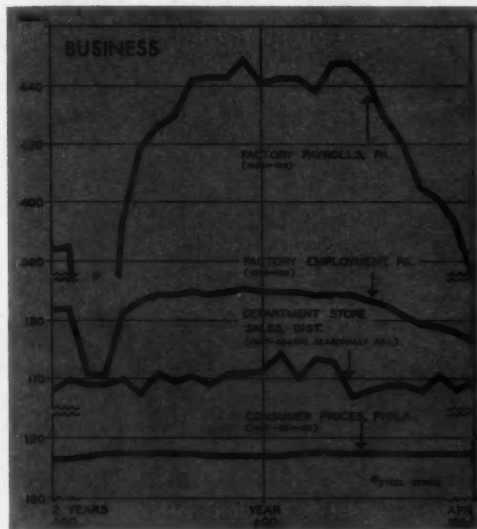
Group IV-A

Areas of substantial labor surplus
Atlantic City, N. J.
Berwick-Bloomsburg, Pa.
Philadelphia, Pa.
Reading, Pa.
Scranton, Pa.
Williamsport, Pa.

Group IV-B

Areas of very substantial labor surplus
Altoona, Pa.
Clearfield-DuBois, Pa.
Johnstown, Pa.
Pottsville, Pa.
Sunbury-Shamokin-Mt. Carmel, Pa.
Wilkes-Barre-Hazleton, Pa.

FOR THE RECORD...



SUMMARY	Third Federal Reserve District		United States			
	Per cent change		Per cent change			
	April 1954 from		4 mos. 1954 from		April 1954 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
OUTPUT						
Manufacturing production.....	-4*	-17*	-14*	-9	-11	-9
Construction contracts.....	+2	+46	+14	+13	+7	+8
Coal mining.....	-8	-26	-17	-5	-22	-15
EMPLOYMENT AND INCOME						
Factory employment.....	-2*	-12*	-10*	-2	-10	
Factory wage income.....	-5*	-15*	-11*			
TRADE**						
Department store sales.....	+3	-3	-3	+4	-2	-4
Department store stocks.....	+2	-2		-1	-4	
BANKING (All member banks)						
Deposits.....	+1	+4	+2	0	+4	+3
Loans.....	0	+6	+7	-1	+2	+3
Investments.....	+2	+1	-1	+3	+6	+3
U.S. Govt. securities.....	+2	+1	-2	+3	+6	+3
Other.....	+2	+2	+1	+1	+6	+5
Check payments.....	+9*	+21*	+9*	-10	+6	+8
PRICES						
Wholesale.....				+1	+2	+1
Consumer.....	0†	+1†	+1†	0	+1	+1

*Pennsylvania †Philadelphia ‡20 Cities

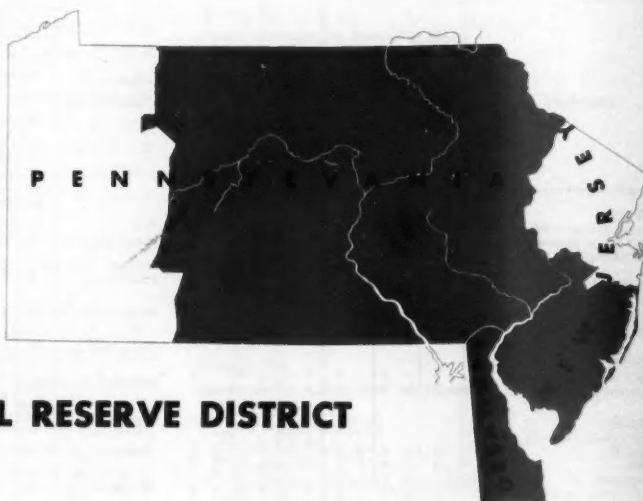
**Adjusted for seasonal variation. ‡Based on 3-month moving averages.

LOCAL CHANGES	Factory*		Department Store		Check Payments	
	Employment	Payrolls	Sales	Stocks	Per cent change April 1954 from	
	Per cent change April 1954 from	Per cent change April 1954 from	Per cent change April 1954 from	Per cent change April 1954 from	Per cent change April 1954 from	Per cent change April 1954 from
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown.....	0	-9	-3	-13		-7 +4
Harrisburg.....	-2	-12	-8	-21		-4 +1
Lancaster.....	-2	-3	-5	-7 +1	+10 +10	+5 -7 +5
Philadelphia.....	-2	-9	-4	-10	+15 +7	+3 -1 +16 +28†
Reading.....	-2	-10	-6	-17	+23 +3	+5 -8 -12 -1
Scranton.....	-1	-3	-6	-10	+22 +17	+12 +10 -10 -5
Trenton.....	-1	-14	-2	-19	+43 +5	+13 -13 -14 +21
Wilkes-Barre.....	-2	-4	-11	-9	+24 +4	-3 -13 -14 +4
Wilmington.....	0	-8	+3	-8	+20 +10	+4 -4 -7 +14
York.....	-1	-3	-5	-7	+32 +14	+6 0 -7 +1

*Not restricted to corporate limits of cities but covers areas of one or more counties.

†Increases reflect in part influence of new security issues.

FOR THE RECORD...



THIRD FEDERAL RESERVE DISTRICT

